

TRAVERSE CITY HOUSING COMMISSION
TRAVERSE CITY, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Traverse City Housing Commission	County Grand Traverse
Audit Date 6/30/05	Opinion Date 11/17/05	Date Accountant Report Submitted to State: 12/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Accounting System for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEC 05 2005

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Accountant Signature <i>Barry E. Gaudette, CPA</i>		ZIP 49686	Date 12/2/05

TRAVERSE CITY HOUSING COMMISSION
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Independent Auditor's Report

Board of Commissioners
Traverse City Housing Commission
Traverse City, Michigan

I have audited the accompanying financial statements of the business-type activities of the Traverse City Housing Commission, Michigan, a component unit of the City of Traverse City, as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Traverse City Housing Commission, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Traverse City Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 17, 2005, on my consideration of Traverse City Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Traverse City Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Traverse City Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Handley, CPA, PC

November 17, 2005

TRAVERSE CITY HOUSING COMMISSION
TRAVERSE CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2005
=====

The Traverse City Housing Commission, created in 1966, by the City of Traverse City provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Traverse City Housing Commission consists of four programs. The first is owned housing, consisting of 136 units of public housing, the second is the capital funding program, the third is the housing choice voucher program consisting of 198 qualifying low-income residents for rental housing, and the Housing Commission has a fourth program that is the administration of CDBG grant monies.

Traverse City Housing Commission had total revenues of \$1,849,232 that includes \$337,819 in rental payments and \$1,350,771 in federal assistance. Total revenues increased by \$68,610 from the prior year, in part, because of the federal assistance for capital grants increased by \$61,203 from the prior year. Total operating expenses were \$1,882,709, that includes \$330,151 in administrative expenses, \$147,418 in utilities, \$250,649 in ordinary maintenance and operation, \$60,733 in general expenses and \$886,015 in housing assistance payments, and \$205,004 in depreciation expense. The operating expenses decreased by \$3,643, in part, because of insurance premiums decreasing by \$8,190 from the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$2,609,778. The Housing Commission's total net assets decreased by \$33,477 from the prior year. The decrease can be attributed, in part, to the depreciation expense of \$205,004.

Total assets of the Housing Commission were \$2,862,175, of which \$489,153 consisted of current assets and \$249,108 of current liabilities. There was a net decrease in total assets of \$249 from the prior year.

Statement of Management Operations

The Traverse City Housing Commission presents this fiscal year that ended June 30, 2005, Statement of Management Operations. In

general, the Commission believes it has completed its fiscal year with the financial resources necessary to successfully complete its ongoing mission of providing housing, and housing opportunities, to low and moderate income families in the City and County of Traverse City, Michigan.

1. Analysis of Overall Financial Position and Results of Operations.

The Traverse City Housing Commissions' overall financial position has improved over fiscal year 2004. Personnel changes are the main reason for the increase in financial position due to a salary change for the executive director and the reduction of one full-time employee with benefits to a part-time employee with no benefits.

2. Capital Asset and Long Term Debt Activity

Within the past year there have been no capital expenditures. The coming year will bring new furnaces and duct work to Riverview Terrace. No other capital expenditures are planned at this time.

3. Current Facts, Decisions, or Conditions Effect on Net Assets or Results of Operations.

At the present time, there are no plans in effect that will affect the financial position of the Traverse City Housing Commission.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed statement of net assets show a summary of changes for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 489,153	\$ 403,743	\$ 85,410
Restricted cash	31,977	27,955	4,022
Property and equipment	<u>2,341,045</u>	<u>2,430,726</u>	<u>(89,681)</u>
Total assets	<u>\$ 2,862,175</u>	<u>\$ 2,862,424</u>	<u>\$ (249)</u>
Current liabilities	\$ 249,108	\$ 215,446	\$ 33,662
Noncurrent liabilities	<u>3,289</u>	<u>3,723</u>	<u>(434)</u>
Total liabilities	<u>252,397</u>	<u>219,169</u>	<u>33,228</u>
Net assets:			
Invested in capital assets	2,341,045	2,430,726	(89,681)
Unrestricted	<u>268,733</u>	<u>212,529</u>	<u>56,204</u>
Total net assets	<u>2,609,778</u>	<u>2,643,255</u>	<u>(33,477)</u>
Total liabilities and net assets	<u>\$ 2,862,175</u>	<u>\$ 2,862,424</u>	<u>\$ (249)</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses, and Changes in Net Assets of the Housing Commission for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 337,819	\$ 332,147	\$ 5,672
Nondwelling rent	<u>30,666</u>	<u>24,313</u>	<u>6,353</u>
Total operating revenues	<u>368,485</u>	<u>356,460</u>	<u>12,025</u>
Operating expenses:			
Administration	330,151	325,086	5,065
Tenant services	2,739	1,936	803
Utilities	147,418	137,672	9,746
Ordinary maintenance and operation	250,649	219,241	31,408
General expenses	60,733	79,059	(18,326)
Casualty losses		500	(500)
Housing assistance payments	886,015	910,765	(24,750)
Depreciation	<u>205,004</u>	<u>212,093</u>	<u>(7,089)</u>
Total operating expenses	<u>1,882,709</u>	<u>1,886,352</u>	<u>(3,643)</u>
Non-operating revenue:			
Interest income	3,194	1,925	1,269
Other income	53,507	55,445	(1,938)
Fraud recovery	540	616	(76)
Gain on sale of fixed assets	922		922
Other government grants	71,813	60,170	11,643
Capital grants	115,323	54,120	61,203
Operating grants	<u>1,235,448</u>	<u>1,251,886</u>	<u>(16,438)</u>
Total nonoperating revenue	<u>1,480,747</u>	<u>1,424,162</u>	<u>56,585</u>
Change in Net Assets	<u><u>\$ (33,477)</u></u>	<u><u>\$ (105,730)</u></u>	<u><u>\$ 72,253</u></u>

FINANCIAL STATEMENTS

TRAVERSE CITY HOUSING COMMISSION
STATEMENT OF NET ASSETS
June 30, 2005
=====

ASSETS

Current Assets:

Cash	\$ 217,407
Accounts receivable-HUD	38,664
Accounts receivable-tenants	2,479
Allowance for bad debts	(1,141)
Accrued interest receivable	171
Investments-unrestricted	147,591
Prepaid expenses and other assets	26,309
Due from other programs	<u>57,673</u>

Total Current Assets	<u>489,153</u>
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Restricted cash	<u>31,977</u>
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Property, Plant, and Equipment:

Land	297,665
Buildings	5,070,611
Equipment	437,394
Building improvements	<u>220,362</u>

Less: accumulated depreciation	6,026,032
	<u>(3,684,987)</u>

Net Property, Plant, and Equipment	<u>2,341,045</u>
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Total Assets	<u><u>\$ 2,862,175</u></u>
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See notes to financial statements

TRAVERSE CITY HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable-trade	\$	41,641
Accounts payable-other government		21,583
Accounts payable-HUD		26,377
Tenant security deposit liability		33,728
Accrued expenses		28,600
Accrued liabilities-other		31,977
Deferred revenues		7,529
Due to other programs		<u>57,673</u>

Total Current Liabilities 249,108

Noncurrent Liabilities:

Accrued compensated absences	<u>3,289</u>
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Total Liabilities 252,397

Net Assets:

Invested in capital assets	2,341,045
Unrestricted net assets	<u>268,733</u>

Total Net Assets 2,609,778

Total Liabilities and Net Assets \$ 2,862,175

See notes to financial statements

TRAVERSE CITY HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Year Ended June 30, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 337,819
Non-dwelling rent	<u>30,666</u>
Total operating revenues	<u>368,485</u>

OPERATING EXPENSES:

Administration	330,151
Tenant services	2,739
Utilities	147,418
Ordinary maintenance and operation	250,649
General expenses	60,733
Housing assistance payments	886,015
Depreciation	<u>205,004</u>
Total operating expenses	<u>1,882,709</u>

Operating income(loss) (1,514,224)

NONOPERATING REVENUES:

Investment interest income	3,194
Other income	53,507
Fraud recovery	540
Gain on sale of fixed assets	922
Other government grants	71,813
Capital grants	115,323
Operating grants	<u>1,235,448</u>

Total nonoperating revenues 1,480,747

Change in net assets (33,477)

Net assets, beginning 2,666,054

Prior period adjustments, equity transfers
and correction of errors (22,799)

Net assets, ending \$ 2,609,778

See notes to financial statements

TRAVERSE CITY HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 384,106
Cash payments to other suppliers of goods and services	(1,309,960)
Cash payments to employees for services	(375,810)
Cash payments for in lieu of taxes	<u>(21,427)</u>
Net cash (used) by operating activities	<u>(1,323,091)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	198
FSS deposits	4,770
Fraud recovery	540
Operating grants	1,255,824
Other revenue	53,507
Other government grants	<u>84,987</u>
Net cash provided by noncapital financing activities	<u>1,399,826</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Gain on sale of fixed assets	922
Capital grants	115,323
Payments for capital acquisitions	<u>(115,323)</u>
Net cash provided by capital and related financing activities	<u>922</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Restricted cash changes	(4,020)
Investment purchases	(100,743)
Receipts of interest and dividends	<u>3,104</u>
Net cash (used) by investing activities	<u>(101,659)</u>
Net increase(decrease) in cash	(24,002)
Cash, beginning	<u>241,409</u>
Cash, ending	<u>\$ 217,407</u>

TRAVERSE CITY HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2005

=====

Reconciliation of cash and cash equivalents
per statement of cash flows to the balance
sheet:

Cash and cash equivalents per balance sheet	\$ 217,407
Restricted cash	31,977
Investments-unrestricted	<u>147,591</u>
	<u>\$ 396,975</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$ (1,514,224)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	205,004
Bad debt allowance	(13,532)
Adjustments	(22,799)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	13,695
Prepaid expenses	(13,690)
Increase (decrease) in liabilities:	
Accounts payable	25,009
Accrued wage/payroll taxes payable	(129)
Accrued compensated absences	(4,507)
Accrued payments in lieu of taxes	156
Deferred revenues	<u>1,926</u>
Net cash (used) by operating activities	<u>\$ (1,323,091)</u>

See notes to financial statements

TRAVERSE CITY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Traverse City Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Traverse City Housing Commission is a component unit of the City of Traverse City, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Traverse City on December 30, 1966, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Traverse City Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3084, the Housing Commission constructed, maintains and operates 136 units of subsidized housing in the City of Traverse City, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 198 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

The Housing Commission, also, has a program for the administration of CDBG grant monies.

Fund Financial Statements

The Housing Commission only has *business-type* activities, which rely to a significant extent on fees and charges for support. The

fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Traverse City Housing Commission has

elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings & improvements	10 - 40 years
Equipment	5 - 10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation time, employees can accrue up to one-half of the accrued vacation leave.
- * Sick pay/personal leave, employees can accrue up to twenty-four (24) hours of short-term medical/personal leave.

The amount of accumulated benefits at June 30, 2005, was \$21,713, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2005, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository</u>	<u>Depository Balances by Category</u>				<u>Carrying Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
The Huntington National Bank	\$100,000	\$	\$	\$100,000	\$100,000
National City Bank	200,000	76,687		276,687	216,871
Bank One	31,977			31,977	31,977
Northwestern Savings Bank	41,242			41,242	41,242
Members Credit Union	6,686			6,686	6,686
Total Deposits	<u>\$379,905</u>	<u>\$ 76,687</u>	<u>\$</u>	<u>\$456,592</u>	396,776
Petty cash					200
					<u>\$396,976</u>

Reconciliation to Cash on Balance Sheet

Cash-unrestricted	\$217,407
Cash-other restricted	31,977
Investments-unrestricted	<u>147,591</u>
Total	<u>\$396,975</u>

Investments-unrestricted

Certificate of deposit (Member's Credit Union)	\$ 6,349
Certificate of deposit (Northwestern Savings Bank)	41,242
Certificate of deposit (Huntington Bank)	<u>100,000</u>
	<u>\$147,591</u>

Restricted cash is comprised of escrow balances for the Family Self Sufficiency Program (FSS) in the Low Rent and Housing Choice Vouchers Program.

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2005, the receivables were \$2,479 with \$1,141 estimated as uncollectible. Bad debt expense was \$7,465.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at June 30, 2005 were as follows:

Capital Fund Program \$ 38,664

Amounts due to HUD represents overfunding of actual expenses for the programs financed. Balances at June 30, 2005 were as follows:

Housing Choice Voucher Program \$ 26,377

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 57,673	Housing Choice Voucher Program	\$ 8,305
		Capital Fund Program	38,664
		CDBG Program	<u>10,704</u>
	<u>\$ 57,673</u>		<u>\$ 57,673</u>

The capital fund program did not transfer any monies to the Low Rent Program during the fiscal year ended June 30, 2005.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance 06/30/04</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 06/30/05</u>
Housing Choice Voucher Program				
Furniture, equip. and machinery- administration	\$ 2,933	\$	\$	\$ 2,933
	2,933	\$	\$	2,933
Less accumulated depreciation	(2,933)	\$		(2,933)
Total	<u>\$</u>			<u>\$</u>

	<u>Balance</u> <u>06/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>06/30/05</u>
Low Rent Program				
Land	\$ 297,665	\$	\$	\$ 297,665
Buildings	4,945,231			4,945,231
Furniture, equip. & machinery - dwellings	100,607			100,607
Furniture, equip. & machinery - administration	277,342			277,342
Building improvements	<u>190,049</u>			<u>190,049</u>
	5,810,894	<u>\$</u>	<u>\$</u>	5,810,894
Less accumulated depreciation	<u>(3,467,786)</u>	<u>\$ (187,360)</u>	<u>\$</u>	<u>(3,655,146)</u>
Total	<u>\$ 2,343,108</u>			<u>\$ 2,155,748</u>
Capital Fund Program				
Buildings	\$ 72,654	\$ 52,726	\$	\$ 125,380
Furniture, equip. & machinery - dwellings	3,906			3,906
Furniture, equip. & machinery - administration	18,642	33,964		52,606
Building improvements	<u>1,680</u>	<u>28,633</u>		<u>30,313</u>
	96,882	<u>\$ 84,753</u>	<u>\$</u>	212,205
Less accumulated depreciation	<u>(9,264)</u>	<u>\$ (17,644)</u>	<u>\$</u>	<u>(26,908)</u>
	<u>\$ 87,618</u>			<u>\$ 185,297</u>
Combined Totals				<u>\$ 2,341,045</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended June 30, 2005, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 2,430,726
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>(89,681)</u>
Balance, ending	<u>\$ 2,341,045</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Traverse City Housing Commission participates in a Deferred Compensation Plan under section 457 of the Internal Revenue Code of 1986, as amended. The annuity contract is with the Variable Annuity Life Insurance Company (VALIC). New employees may become a Participant on the first day of employment and an employee may become a Participant as of the first day of any calendar month by entering into a Deferred Compensation Agreement with respect to compensation not yet earned. The Housing Commission matched up to 3.0 percent of the employees wage for the fiscal year ended June 30, 2005 and paid \$8,544 to VALIC for the employer's portion.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

To void check #27784 dated 06/14/04 issued to MI Mobile

Payment of prior year FICA payroll taxes	\$ 22
	(28,113)

\$ (28,091)

Housing Choice Voucher Program

To record collection loss recovery for Elk Rapids H.C. - receivable written off for FYE 06/30/04

\$ 5,292

NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended June 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>CDBG Program</u>
Condensed Statement of Net Assets				
Current assets	\$ 392,549	\$ 38,664	\$ 57,940	\$
Restricted cash	20,064		11,913	
Property & equip.	2,155,748			
Total assets	<u>\$ 2,568,361</u>	<u>\$ 38,664</u>	<u>\$ 69,853</u>	<u>\$</u>
Current liabilities	\$ 139,001	\$ 38,664	\$ 55,584	\$15,859
Noncurrent liabilities	1,289		928	1,072
Total liabilities	<u>140,290</u>	<u>38,664</u>	<u>56,512</u>	<u>16,931</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>CDBG Program</u>
Combined Statement of Net Assets (cont'd)				
Net assets:				
Invested in capital assets	2,155,748	185,297		
Unrestricted net assets	<u>272,323</u>	<u> </u>	<u>13,341</u>	<u>(16,931)</u>
Total net assets	<u>2,428,071</u>	<u>185,297</u>	<u>13,341</u>	<u>(16,931)</u>
Total liabilities & net assets	<u>\$ 2,568,361</u>	<u>\$ 223,961</u>	<u>\$ 69,853</u>	<u>\$</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Dwelling and nondwelling rents	\$ 368,485	\$	\$	\$
Depreciation	(187,360)	(17,644)		
Other operating expenses	<u>(505,061)</u>	<u>(72,546)</u>	<u>(1,027,207)</u>	<u>(72,891)</u>
Operating(loss)	<u>(323,936)</u>	<u>(90,190)</u>	<u>(1,027,207)</u>	<u>(72,891)</u>
Nonoperating revenues:				
Investment earnings	2,423		771	
Other income	52,298		1,209	
Fraud recovery			540	
Gain on sale of fixed assets	922			
Other government grants				71,813
Capital grants		115,323		
Operating grants	<u>150,623</u>	<u>72,546</u>	<u>1,012,279</u>	
Change in net assets	<u>(117,670)</u>	<u>97,679</u>	<u>(12,408)</u>	<u>(1,078)</u>
Beginning net assets	2,573,832	87,618	20,457	(15,853)
Prior period adjustments	<u>(28,091)</u>	<u> </u>	<u>5,292</u>	
Ending net assets	<u>\$ 2,428,071</u>	<u>\$ 185,297</u>	<u>\$ 13,341</u>	<u>\$ (16,931)</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>CDBG Program</u>
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating activities	\$ (154,955)	\$ (72,546)	\$ (1,023,598)	\$ (71,992)
Noncapital financing activities	201,379	72,546	1,053,909	71,992
Capital and related financing activities	922			
Investing activities	(98,145)		(3,514)	
Net increase (decrease)	(50,799)		26,797	
Beginning cash and cash equivalents	<u>210,266</u>		<u>31,143</u>	
Ending cash and cash equivalents	<u>\$ 159,467</u>	<u>\$</u>	<u>\$ 57,940</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

TRAVERSE CITY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
June 30, 2005

=====

C-3084	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 159,467	\$ 38,664
Accounts receivable-HUD		
Accounts receivable-tenants	2,479	
Allowance for doubtful accounts	(1,141)	
Accrued interest receivable	171	
Investments-unrestricted	147,591	
Prepaid expenses and other assets	26,309	
Due from other programs	<u>57,673</u>	

Total current assets	<u>392,549</u>	<u>38,664</u>
----------------------	----------------	---------------

Restricted cash

	<u>20,064</u>	
--	---------------	--

Property, plant, and equipment:

Land	297,665	
Buildings	4,945,231	125,380
Equipment	377,949	56,512
Building improvements	<u>190,049</u>	<u>30,313</u>
	5,810,894	212,205
Less accumulated depreciation	<u>(3,655,146)</u>	<u>(26,908)</u>

Net property, plant and equipment	<u>2,155,748</u>	<u>185,297</u>
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Total Assets	<u>\$ 2,568,361</u>	<u>\$ 223,961</u>
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Housing Choice Vouchers <u>14.871</u>	CDBG Program <u> </u>	Totals <u> </u>
\$ 57,940	\$	\$ 217,407
		38,664
		2,479
		(1,141)
		171
		147,591
		26,309
		<u>57,673</u>
<u>57,940</u>		<u>489,153</u>
<u>11,913</u>		<u>31,977</u>
		297,665
		5,070,611
2,933		437,394
		<u>220,362</u>
<u>2,933</u>		6,026,032
(2,933)		<u>(3,684,987)</u>
		<u>2,341,045</u>
<u>\$ 69,853</u>	<u>\$</u>	<u>\$ 2,862,175</u>

TRAVERSE CITY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2005

=====

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable-trade	\$ 40,791	\$
Accounts payable-other government	21,583	
Accounts payable-HUD		
Tenant security deposit liability	33,728	
Accrued expenses	15,306	
Accrued liabilities-other	20,064	
Deferred revenues	7,529	
Due to other programs		<u>38,664</u>
Total current liabilities	139,001	38,664
Noncurrent liabilities:		
Accrued compensated absences	<u>1,289</u>	
Total liabilities	<u>140,290</u>	<u>38,664</u>
Net Assets:		
Invested in capital assets	2,155,748	185,297
Unrestricted net assets	<u>272,323</u>	
Total net assets	<u>2,428,071</u>	<u>185,297</u>
Total Liabilities and Net Assets	<u>\$2,568,361</u>	<u>\$ 223,961</u>

Housing Choice Vouchers <u>14.871</u>	CDBG Program <u> </u>	Totals <u> </u>
\$ 629	\$ 221	\$ 41,641
		21,583
26,377		26,377
		33,728
8,360	4,934	28,600
11,913		31,977
		7,529
<u>8,305</u>	<u>10,704</u>	<u>57,673</u>
55,584	15,859	249,108
<u>928</u>	<u>1,072</u>	<u>3,289</u>
<u>56,512</u>	<u>16,931</u>	<u>252,397</u>
<u>13,341</u>	<u>(16,931)</u>	<u>2,341,045</u>
		268,733
<u>13,341</u>	<u>(16,931)</u>	<u>2,609,778</u>
<u>\$ 69,853</u>	<u>\$</u>	<u>\$ 2,862,175</u>

TRAVERSE CITY HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS**
 Year Ended June 30, 2005

=====

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 337,819	\$
Nondwelling rent	<u>30,666</u>	<u> </u>
Total operating revenues	<u>368,485</u>	<u> </u>
OPERATING EXPENSES:		
Administration	109,378	7,398
Tenant services	2,739	
Utilities	147,418	
Ordinary maintenance and operation	185,501	65,148
General expenses	60,025	
Housing assistance payments		
Depreciation	<u>187,360</u>	<u>17,644</u>
Total operating expenses	<u>692,421</u>	<u>90,190</u>
Operating income(loss)	<u>(323,936)</u>	<u>(90,190)</u>
NONOPERATING REVENUES:		
Investment interest income	2,423	
Other income	52,298	
Fraud recovery		
Gain on sale of fixed assets	922	
Other government grants		
Capital grants		115,323
Operating grants	<u>150,623</u>	<u>72,546</u>
Total nonoperating revenues	<u>206,266</u>	<u>187,869</u>
Change in net assets	(117,670)	97,679
Net assets, beginning	2,573,832	87,618
Prior period adjustments, equity transfers and correction of errors	<u>(28,091)</u>	<u> </u>
Net assets, ending	<u>\$2,428,071</u>	<u>\$ 185,297</u>

Housing Choice Vouchers <u>14.871</u>	CDBG Program <u> </u>	Totals <u> </u>
\$	\$	\$ 337,819
		<u>30,666</u>
		<u>368,485</u>
140,484	72,891	330,151
		2,739
		147,418
		250,649
708		60,733
886,015		886,015
		<u>205,004</u>
<u>1,027,207</u>	<u>72,891</u>	<u>1,882,709</u>
<u>(1,027,207)</u>	<u>(72,891)</u>	<u>(1,514,224)</u>
771		3,194
1,209		53,507
540		540
		922
	71,813	71,813
		115,323
<u>1,012,279</u>		<u>1,235,448</u>
<u>1,014,799</u>	<u>71,813</u>	<u>1,480,747</u>
(12,408)	(1,078)	(33,477)
20,457	(15,853)	2,666,054
<u>5,292</u>		<u>(22,799)</u>
<u>\$ 13,341</u>	<u>\$ (16,931)</u>	<u>\$ 2,609,778</u>

TRAVERSE CITY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 384,106	\$
Cash payments to other suppliers of goods and services	(318,116)	(72,546)
Cash payments to employees for services	(199,518)	
Cash payments for in lieu of taxes	<u>(21,427)</u>	
Net cash (used) by operating activities	<u>(154,955)</u>	<u>(72,546)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	198	
FSS deposits	485	
Due from/to other funds	(2,225)	17,155
Fraud recovery		
Operating grants	150,623	55,391
Other revenue	52,298	
Other government grants		
Net cash provided by noncapital financing activities	<u>201,379</u>	<u>72,546</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Gain on sale of fixed assets	922	
Capital grants		115,323
Payments for capital acquisitions		<u>(115,323)</u>
Net cash provided by capital and related financing activities	<u>922</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash changes	265	
Investment purchases	(100,743)	
Receipts of interest and dividends	<u>2,333</u>	
Net cash (used) by investing activities	<u>(98,145)</u>	
Net increase(decrease) in cash	(50,799)	
Cash, beginning	<u>210,266</u>	
Cash, ending	<u>\$ 159,467</u>	<u>\$</u>

Housing Choice Vouchers 14.871	CDBG Program	Totals
\$	\$	\$ 384,106
(913,025)	(6,273)	(1,309,960)
(110,573)	(65,719)	(375,810)
		(21,427)
<u>(1,023,598)</u>	<u>(71,992)</u>	<u>(1,323,091)</u>
		198
4,285		4,770
(1,935)	(12,995)	
540		540
1,049,810		1,255,824
1,209		53,507
	84,987	84,987
<u>1,053,909</u>	<u>71,992</u>	<u>1,399,826</u>
		922
		115,323
		(115,323)
		922
(4,285)		(4,020)
771		(100,743)
		3,104
<u>(3,514)</u>		<u>(101,659)</u>
26,797		(24,002)
31,143		241,409
<u>\$ 57,940</u>	<u>\$</u>	<u>\$ 217,407</u>

TRAVERSE CITY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended June 30, 2005
 =====

C-3084	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF CASH
 FLOWS TO THE BALANCE SHEET:**

Cash and cash equivalents per balance sheet	\$ 159,467	\$
Restricted cash	20,064	
Investments-unrestricted	<u>147,591</u>	
	<u>\$ 327,122</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (323,936)	\$ (90,190)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	187,360	17,644
Bad debt allowance	(13,532)	
Adjustments	(28,091)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	13,695	
Prepaid expenses	(13,690)	
Increase (decrease) in liabilities:		
Accounts payable	25,506	
Accrued wage/payroll taxes payable	(402)	
Accrued compensated absences	(3,947)	
Accrued payments in lieu of taxes	156	
Deferred revenues	<u>1,926</u>	
Net cash (used) by operating activities	<u>\$ (154,955)</u>	<u>\$ (72,546)</u>

Housing Choice Vouchers 14.871	CDBG Program	Totals
\$ 57,940	\$	\$ 217,407
11,913		31,977
		<u>147,591</u>
<u>\$ 69,853</u>	<u>\$</u>	<u>\$ 396,975</u>
 \$(1,027,207)	 \$(72,891)	 \$(1,514,224)
 5,292		205,004
		(13,532)
		(22,799)
		13,695
		(13,690)
(561)	64	25,009
21	252	(129)
(1,143)	583	(4,507)
		156
		<u>1,926</u>
<u>\$(1,023,598)</u>	<u>\$(71,992)</u>	<u>\$(1,323,091)</u>

TRAVERSE CITY HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2005

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 150,623
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	187,869
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	<u>1,012,279</u>
	Total		<u>\$1,350,771</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

TRAVERSE CITY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2005

=====

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 159,467	\$
113	Cash-other restricted	<u>20,064</u>	
100	Total cash	<u>179,531</u>	
	Receivables:		
122	A/R-HUD other projects		38,664
126	A/R-tenants-dwelling rents	2,479	
126.1	Allowance for doubtful accounts	(1,141)	
129	Accrued interest receivable	<u>171</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>1,509</u>	<u>38,664</u>
	Investments:		
131	Investments-unrestricted	<u>147,591</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	26,309	
144	Interprogram due from	<u>57,673</u>	
	Total other current assets	<u>83,982</u>	
150	Total current assets	<u>412,613</u>	<u>38,664</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	297,665	
162	Buildings	4,945,231	125,380
163	Furn, equip & mach-dwellings	100,607	3,906
164	Furn, equip & mach-admin.	277,342	52,606
165	Building improvements	190,049	30,313
166	Accumulated depreciation	<u>(3,655,146)</u>	<u>(26,908)</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,155,748</u>	<u>185,297</u>
180	Total noncurrent assets	<u>2,155,748</u>	<u>185,297</u>
190	Total Assets	<u>\$ 2,568,361</u>	<u>\$223,961</u>

Housing Choice Vouchers 14.871	CDBG Program	Totals
\$ 57,940	\$	\$ 217,407
11,913		31,977
69,853		249,384
		38,664
		2,479
		(1,141)
		171
		40,173
		147,591
		26,309
		57,673
		83,982
69,853		521,130
		297,665
		5,070,611
		104,513
2,933		332,881
		220,362
(2,933)		(3,684,987)
		2,341,045
		2,341,045
\$ 69,853	\$	\$ 2,862,175

TRAVERSE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2005

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FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 40,791	\$
321	Accrued wage/payroll taxes payable	5,397	
322	Accrued compensated absences	9,909	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	21,583	
341	Tenant security deposits	33,728	
342	Deferred revenues	7,529	
346	Accrued liabilities-other	20,064	
347	Interprogram due to		<u>38,664</u>
310	Total current liabilities	139,001	38,664
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>1,289</u>	
300	Total liabilities	<u>140,290</u>	<u>38,664</u>
	Net Assets:		
508.1	Invested in capital assets	<u>2,155,748</u>	<u>185,297</u>
508	Total invested in capital assets	2,155,748	185,297
512.1	Unrestricted net assets	<u>272,323</u>	
513	Total Net Assets	<u>2,428,071</u>	<u>185,297</u>
600	Total Liabilities and Net Assets	<u>\$ 2,568,361</u>	<u>\$223,961</u>

Housing Choice Vouchers <u>14.871</u>	CDBG Program <u>Program</u>	Totals <u>Totals</u>
\$ 629	\$ 221	\$ 41,641
2,891	1,888	10,176
5,469	3,046	18,424
26,377		26,377
		21,583
		33,728
		7,529
11,913		31,977
<u>8,305</u>	<u>10,704</u>	<u>57,673</u>
55,584	15,859	249,108
<u>928</u>	<u>1,072</u>	<u>3,289</u>
<u>56,512</u>	<u>16,931</u>	<u>252,397</u>
		<u>2,341,045</u>
		2,341,045
<u>13,341</u>	<u>(16,931)</u>	<u>268,733</u>
<u>13,341</u>	<u>(16,931)</u>	<u>2,609,778</u>
<u>\$ 69,853</u>	<u>\$</u>	<u>\$ 2,862,175</u>

TRAVERSE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2005

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 337,819	\$
704	Tenant revenue-other	<u>30,666</u>	
705	Total tenant revenue	368,485	
706	HUD PHA grants	150,623	72,546
706.1	Capital grants		115,323
708	Other government grants		
711	Investment income-unrestricted	2,423	
714	Fraud recovery		
715	Other revenue	52,298	
716	Gain on sale of fixed assets	<u>922</u>	
700	Total revenue	<u>574,751</u>	<u>187,869</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	44,615	
912	Auditing fees	3,330	
914	Compensated absences	(2,730)	
915	Employee benefit contributions	22,268	
916	Other operating-administrative	41,895	7,398
	Tenant Services:		
924	Tenant services-other	2,739	
	Utilities:		
931	Water	29,660	
932	Electricity	98,963	
933	Gas	18,795	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	99,393	
942	Ordinary maint & oper-mat'ls & other	7,837	7,899
943	Ordinary maint & oper-contract costs	49,378	57,249
945	Employee benefit contributions	28,893	
	General expenses:		
961	Insurance premiums	29,923	
962	Other general expenses	1,054	
963	Payments in lieu of taxes	21,583	
964	Bad debt - tenant rents	<u>7,465</u>	
969	Total operating expenses	<u>505,061</u>	<u>72,546</u>

Housing Choice Vouchers <u>14.871</u>	CDBG Program <u> </u>	<u>Totals</u>
	\$	\$ 337,819
		<u>30,666</u>
		368,485
1,012,279		1,235,448
		115,323
	71,813	71,813
771		3,194
540		540
1,209		53,507
		<u>922</u>
<u>1,014,799</u>	<u>71,813</u>	<u>1,849,232</u>
89,720	51,076	185,411
1,170		4,500
343	769	(1,618)
19,388	14,709	56,365
29,863	6,337	85,493
		2,739
		29,660
		98,963
		18,795
		99,393
		15,736
		106,627
		28,893
708		30,631
		1,054
		21,583
		<u>7,465</u>
<u>141,192</u>	<u>72,891</u>	<u>791,690</u>

TRAVERSE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2005

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	<u>69,690</u>	<u>115,323</u>
	Expenses continued:		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>187,360</u>	<u>17,644</u>
	Total other expenses	<u>187,360</u>	<u>17,644</u>
900	Total expenses	<u>692,421</u>	<u>90,190</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(117,670)	97,679
1103	Beginning Net Assets	2,573,832	87,618
1104	Prior period adjustments, equity transfers and correction of errors	<u>(28,091)</u>	
	Ending Net Assets	<u>\$ 2,428,071</u>	<u>\$ 185,297</u>

Housing Choice Vouchers <u>14.871</u>	CDBG Program <u> </u>	<u>Totals</u>
<u>873,607</u>	<u>(1,078)</u>	<u>1,057,542</u>
<u>886,015</u>	<u> </u>	<u>886,015</u> <u>205,004</u>
<u>886,015</u>	<u> </u>	<u>1,091,019</u>
<u>1,027,207</u>	<u>72,891</u>	<u>1,882,709</u>
(12,408)	(1,078)	(33,477)
20,457	(15,853)	2,666,054
<u>5,292</u>	<u> </u>	<u>(22,799)</u>
<u>\$ 13,341</u>	<u>\$ (16,931)</u>	<u>\$ 2,609,778</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Traverse City Housing Commission
Traverse City, Michigan

I have audited the financial statements of the business-type activities of the Traverse City Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 17, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Traverse City Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated November 17, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bany E. Tardiff, CPA, PC

November 17, 2005

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Traverse City Housing Commission
Traverse City, Michigan

Compliance

I have audited the compliance of the Traverse City Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Traverse City Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated November 17, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Faudett, CPA, PC

November 17, 2005

TRAVERSE CITY HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2005
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$ 150,623	No	O	N/A	N/A
14.872	Capital Fund Program	187,869	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>1,012,279</u>	Yes	O	N/A	N/A
Total		<u>\$1,350,771</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

TRAVERSE CITY HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
June 30, 2005
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

TRAVERSE CITY HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

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NONE

TRAVERSE CITY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
JUNE , 2005

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<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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LOW RENT PROGRAM:

There were no adjusting journal entries.

TRAVERSE CITY HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2005

TRAVERSE CITY HOUSING COMMISSION
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JUNE 30, 2005

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Traverse City Housing Commission

I have audited the financial statements of the Traverse City Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated November 17, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Sandy E. Landolt, CPA, PC

November 17, 2005

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49685
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Traverse City Housing Commission

I have audited the financial statements of the Traverse City Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated November 17, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

November 17, 2005

TRAVERSE CITY HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

June 30, 2005

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The Housing Commission has improved it's internal controls from the prior year by implementing the comments made in last years management advisory letter.

Also, it should be noted that I did not identify improper revenue recognition as a fraud risk for the following reasons:

- * The Housing Commission uses software for its Tenant Accounting.
- * The Housing Commission does not accept cash for the payment of rents.
- * There is segregation of duties between the collection of rents, the preparation of deposit tickets, and the deposit in the bank.
- * The Executive Director compares the deposit ticket and bank receipt to the batch reports and receipts.

TRAVERSE CITY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2005

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries.